

Report of the auditor-general to the Western Cape Provincial Parliament and the council on the George Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the George Municipality set out on pages 1 to 121, which comprise the appropriation statement, the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of the auditor's report, the financial statements present fairly, in all material respects, the financial position of the George Municipality as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2017 (Act No. 3 of 2017) (Dora).

Basis for qualified opinion

Irregular expenditure

3. I was unable to obtain sufficient appropriate audit evidence that irregular expenditure for the current and previous years' disclosure is complete, due to irregular expenditure identified during the audit process as a result of the contravention of section 117 of the MFMA. I could not confirm whether all the irregular expenditure had been recorded by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to irregular expenditure stated at R11 846 408 in note 48 to the financial statements.

Context for the opinion

4. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
5. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 45 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of reclassification and an error in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Material losses/impairments – trade debtors

9. As disclosed in note 32 to the financial statements, material losses of R112 million (2016-17: R89 million) were incurred as a result of a write-off of irrecoverable trade debtors.

Other matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

11. The supplementary information set out on pages 122 to 127 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Unaudited disclosure notes

12. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

14. In preparing the financial statements, the accounting officer is responsible for assessing the George Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

15. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance,

but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

16. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

17. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
18. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
19. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objective presented in the annual performance report of the municipality for the year ended 30 June 2018:

Objective	Pages in the annual performance report
Strategic objective 3 – affordable quality services	10 – 15

20. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

21. The material findings in respect of the usefulness and reliability of the selected objective are as follows:

Strategic objective 3 – affordable quality services

TL43 – provide free basic electricity to indigent households

22. The measures taken to improve performance against the target of 19 500 were not included in the annual performance report.

Various indicators

23. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the indicators listed in the table below relating to this strategic objective. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievements by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements in the annual performance report of the indicators listed below:

Indicator number	Indicator description	Number of indicators
TL42	Provide free basic water to indigent households	1
TL43	Provide free basic electricity to indigent households	1
TL44	Provide free basic sanitation to indigent households	1
TL45	Provide free basic refuse removal to indigent households	1

Other matter

24. I draw attention to the matter below.

Achievement of planned targets

25. Refer to the annual performance report on pages 10 to 20 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 21 to 22 of this report.

Report on the audit of compliance with legislation

Introduction and scope

26. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
27. The material findings on compliance with specific matters in key legislation are as follows:

Asset management

28. All investments were not made in accordance with the requirements of the investment policy, as required by the Municipal Investment Regulations, 2005, regulation 3(3).
29. Funds were invested in financial institution in contravention of the Municipal Investment Regulations, 2005, regulation 6.

Procurement and contract management

30. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements, as bidding documentation could not be provided for audit purposes.
31. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of Municipal Supply Chain Management Regulations, 2005, regulations 17(a) and (c).

Consequence management

32. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
33. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Conditional grants

34. Performance in respect of programmes funded by the municipal infrastructure grant was not evaluated, as required by section 12(5) of Dora.

Other information

35. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the municipal manager's overview and the audit committee's recommendations. The other information does not include the financial statements, the auditor's report and the selected objective presented in the annual performance report that has been specifically reported in this auditor's report.

36. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
37. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objective presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
38. The complete draft annual report was received for review and no material inconsistencies with the financial statements exist. The final printer's proof of the annual report will be reviewed and any material inconsistencies then identified will be communicated to management. Should the inconsistencies not be corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate.

Internal control deficiencies

39. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
40. Significant lapses occurred in the leadership's oversight responsibility over financial reporting, predetermined objectives, compliance as well as related internal controls, resulting in material misstatements of predetermined objectives in the annual performance report and material non-compliance with laws and regulations.
41. Preventative measures embedded in legislation was not sufficiently implemented to prevent non-compliance with supply chain management laws and regulations resulting in irregular expenditure that could not be quantified.
42. Management did not implement adequate processes to ensure that a annual performance report was prepared in compliance with the reporting framework, as the internal review procedures were inadequate to identify and correct material misstatements in the annual performance report and the underlying records.

43. Adequate compliance monitoring processes were also not implemented, resulting in material non-compliance being reported – mainly in the area of supply chain management. Management did not ensure that appropriate audit evidence existed to support the actual achievements reported.

Auditor-General
Cape Town

14 December 2018



Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for the selected objective and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the George Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.